1945

International Shoe Company

1509 WASHINGTON AVENUE

St. Louis 3, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1945

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NOVEMBER 30, 1945

January 12, 1946

To Our Stockholders:

Financial report showing the results of the International Shoe Company's operations for the fiscal year ended November 30, 1945 is submitted herewith.

Net profit for the year was $5,568,720 which represents an earning of $1.66 per share of common stock. This compares with $5,969,125 or $1.78 per share last year. Federal taxes on income (net) charged to profit and loss account were $5,162,490 in 1945 against $7,250,710 in 1944.

Net sales to customers were $148,783,704 compared with $156,642,087 last year, and $142,841,095 in 1943.

The Company's own supply plants (tanneries, cotton mill, rubber plant etc.) produced during the year for its own use shoe materials and supplies to the value of $74,305,140 which combined with our sales made an aggregate of $223,088,844 business transacted.

Our factories produced 52,650,790 pairs of shoes, against 53,920,568 last year, and 50,133,401 in 1943.

1945 HIGH LIGHTS

The end of the war with Japan on August 14, resulted in virtually complete cancellation of military production with only shoes in process being completed on most contracts. At V-J Day 28% of the Company's production in pairs was for the Government.

While the problem of plant re-equipment and realignment from military to civilian production was not serious, numerous collateral problems involving shifts in materials and in some cases employee skills, resulted in a rather sharp drop in over-all shoe production immediately following the end of the war.

At the close of our fiscal year, our *civilian* production had increased 22% from the pre-V-J Day level. Steady progress is being made and with further anticipated improvements in availability of workers and in the supply of materials, a substantial increase over present levels is foreseen during the coming year.

Demand for shoes continues in excess of the present productive ability of the industry. Demand for the Company's product is heightened even more by the favorable reaction of customers to the fair policy followed in the distribution of shoes during the war-time shortage, and perhaps more important, to its maintenance of quality standards on a relatively high basis under difficult conditions.

The termination of large-scale military production and the numerous changes resulting therefrom affected earnings adversely. The principal cause, however, of the reduced earnings of the Company in the year 1945 was the rigid price ceilings on civilian shoes maintained by the OPA throughout the year.

Based on urgent appeals of the industry an order was issued by the OPA increasing the prices of shoes 4½% effective January 5, 1946. The increase compensates for only part of the increased cost incident to reconversion and the resumption of pre-war features in civilian shoes. Furthermore it does not take into account the substantial wage increases put into effect during the closing months of the year.

Present costs will require further price increases.

However, the announced policy of Governmental authorities of discontinuing price controls when supplies are adequate should result in freeing the shoe industry from price control some time in 1946.

The Company's product and policies are highly regarded by retail distributors including not only those who have been its customers through years of mutually beneficial relations, but by many others who have come to know the character of its shoes and the integrity of its policies.

Goodwill of present and prospective customers combined with our efficient production and distribution form a solid basis for favorable prospective Company earnings when present Government controls are removed.

PRODUCTION AND SHIPMENTS

While at the end of August both production and shipments were running ahead of the year previous, the loss of Government business with only partial replacement by civilian in the last three months of the fiscal year resulted in decreases of 2% in production and 5% in shipments for the year.

With military procurement at approximately the highest level reached during the war, its abrupt termination immediately following the end of the war with Japan was necessarily followed by a loss of considerable production while the plants affected were being changed over to production of civilian shoes.

The more complex nature of most civilian shoes does not permit the replacement of military production with civilian production in the same amount when measured in terms of pairs or dollars.

With the demand for shoes continuing in excess of supply, it is anticipated that Company shipments will be for some time limited only by production.

Production on the other hand is presently limited primarily by manpower, and secondarily by plant facilities; prospects for improvement of which are referred to under separate headings in this letter.

MANPOWER

Since the end of the war the manpower shortage has shown some improvement, but much less than was anticipated with the result that the Company has been able to make only small net gains in its factory working forces over the past several months.

Reports indicate that many workers laid off by munition and other war plants are seeking only jobs that pay rates comparable to those they had been receiving; and failing in this, accept unemployment compensation. It is believed that this situation will be temporary and in the coming months workers will become available in numbers sufficient to build up production. In many cases the Company's present factories will be able to produce upwards of 25% more shoes when they are able to obtain adequate working forces.

PLANT FACILITIES

Plans have been made to open ten new plants in Missouri, Arkansas and Kentucky. With one exception, all of these will be shoe factories, moderate in size. They will be new buildings of modern design, and will be equipped with the most improved types of machinery and equipment. The engineering of building and plant lay-out of each factory is designed to achieve maximum efficiency in the production of one type and grade of shoes.

Because of difficulties in obtaining building materials, as well as machinery and equipment, these plants will be brought into production over a period of time extending into the latter part of 1946.

For the most part these new plants represent added production, which combined with the increases anticipated in our present plants makes the Company's total prospective production exceed considerably its peak at any previous time.

WAGES

Effective December 3, 1945, the Company made increases in wage and salary rates. The increases in rates averaging from 10% to 12½% were general, applying to all hourly rated and salaried employees of the various factories and departments with a few exceptions where adjustments had recently been made. The increases added over \$5,000,000 a year to the Company's payroll. The several general increases since January 1, 1941, have raised the Company's basic wage and salary cost more than \$15,000,000 a year since that date, omitting overtime cost.

Similar increases have been made quite generally throughout the whole industry. The new wage level of the industry should make it less difficult to obtain needed workers both as to number and type.

Since January 1, 1941, the Company's basic wage rates have been increased by substantially more than the increase in cost of living.

PRICES—COSTS

The trend toward narrower margins noted in the year 1944 continued through the year 1945. The cumulative effect of several years of rising costs on profit margins of civilian shoes became apparent after the cancellation of military production and the more complete restoration of style and other pre-war features which had been prohibited during all or part of the war period.

Shoe manufacturers have been aware of this development for a considerable period of time and more than a year ago appealed to the OPA for recognition of these costs in conservative price increases for civilian shoes. Finally in November 1945 representatives of the industry met with OPA officials and presented particulars showing that costs had increased on an average 10% by reason of discontinuance of military production and return to the more expensive features in civilian shoes. As the result a general price increase of 4½% was granted by the OPA.

The items of cost making up the 10% increase did not include the substantial wage increases which the industry put into effect quite generally in the latter part of the year. Present costs of producing shoes will necessitate further upward adjustment of shoe prices.

A steady rise in the production of civilian shoes during 1946 should bring the present shoe shortage to an end and increase the supply of shoes to a point where competition can be depended on to control prices—thus ending the need for Government control.

The end of Government control of shoe prices will bring about the correction of much derangement in quality, grade and price alignments now existing in the shoe market. This unbalanced situation grew out of the rather artificial non-competitive conditions prevalent during the war period and because the Government pricing order, while necessary and on the whole quite effective, was of necessity arbitrary and crude when applied to particular lines, shoes, and many individual situations.

The Company's favorable earnings prospects when competitive conditions shall have been restored and Government controls removed have been commented on elsewhere in this letter.

INCOME AND EXCESS PROFITS TAXES

The Company's provision for income and excess profits taxes was determined under the Tax Adjustment Act of 1945.

There was no change in the Company's excess profits credit. This credit was equal to $2.59 per share, which after deducting the normal and surtax of 40%, left $1.55 per share before the excess profits tax began to apply.

The Revenue Act of 1945 terminates the excess profits tax on December 31, 1945. This means that only one-twelfth of the Company's earnings in the next fiscal year will be subject to this tax.

The Company has filed with the Bureau of Internal Revenue a claim under Section 722 of the Internal Revenue Code. This section of the Code is designed to provide relief from excess profits taxes found to be excessive and discriminatory.

WORKING CAPITAL

After applying Government tax notes in an amount equal to the reserve for Federal taxes on income, the Company's current assets of $71,531,380 are eleven times its current liabilities of $6,408,150.

The Company's financial position remains strong. Its present cash position indicates its ability to meet the financial needs of a period of expansion and possibly higher price levels without resorting to long-term financing.

RENEGOTIATION OF GOVERNMENT CONTRACTS

On completion of renegotiation of the Company's 1944 Government sales, no refund was necessary. The results obtained on Government sales in the year 1945 indicate that no renegotiation adjustments are likely; however, any contingencies in this respect are fully provided for in the Reserve for Contingencies.

CONCLUSION

With a keen sense of appreciation and pride we welcome the return of our associates who have been in the Service of our Country.

Perhaps history will record 1945 as the most eventful year in the life of our nation, if not of the world. Gratified and thankful that the war has been won we face the problems of peace with courage and hope. COURAGE because of faith in our organization and its unbroken record of success—HOPE—because we believe that co-operation and good-will will be recognized as the only sound basis for the preservation of our national life and progress.

In this spirit we shall meet the problems of 1946 with confidence.

FOR THE BOARD OF DIRECTORS

Frank C. Rand
Chairman of the Board

Byron A. Gray
President

INTERNATIONAL

BALANC

As of Noven

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 13,184,307
United States Government securities, including excess profits tax refund bonds and $8,000,000 of tax notes	$ 19,604,783	
Less—Amount of tax notes applied against Federal tax liability, as per contra	6,000,000	13,604,783
Accounts receivable:		
Customers, less reserve for cash discounts and doubtful accounts	14,792,001	
Traveling advances to salesmen and sundry accounts	54,127	14,846,128
Inventories:		
At cost (determined on the "last-in, first-out" method):		
Finished shoes	5,260,035	
Shoes in process	1,699,667	
Hides and leather	10,424,957	
At lower of cost or market:		
Miscellaneous raw materials, merchandise and supplies on hand and in process	12,511,503	29,896,162
		71,531,380
Refunds of Federal taxes resulting from replacement, under Section 22(d) (6) of the Internal Revenue Code, of inventories maintained on "last-in, first-out" basis		1,145,457
Company's Own Common Stock—9,400 shares at net cost (at quoted market prices $426,525)		243,134
Advances to ($103,600) and Investment in Subsidiary and Associated Companies (less reserve)		289,405
Investment in Stocks of other Companies, Etc. (less reserve)		223,313
Physical Properties at tanneries, shoe factories, supply departments, and sales branches (based on appraisal as of April 30, 1925, plus subsequent additions at cost):		
Land and water rights	2,010,802	
Buildings and structures	21,700,908	
Machinery and equipment	19,794,121	
Lasts, patterns, and dies	1	
	43,505,832	
Less—Reserve for depreciation	28,531,815	14,974,017
Deferred Charges—insurance premiums, taxes, and sundry		412,425
		$ 88,819,131

SHOE COMPANY

SHEET

ber 30, 1945

LIABILITIES

Current Liabilities:		
Accounts payable for merchandise, expenses, and payrolls		$ 4,435,505
Due to subsidiary companies		90,806
Employees income tax withheld from payroll		428,089
Officers, stockholders, and employees balances		139,138
Accrued employees vacations		1,114,679
Employees partial payments for victory bonds		199,933
Reserve for Federal taxes on income	$ 6,000,000	
Less—United States Government notes purchased for payment of taxes, as per contra	6,000,000	—
		6,408,150
Reserves:		
For contingencies	1,000,000	
For excess cost of replacing inventories maintained on the "last-in, first-out" basis, less income taxes applicable thereto	310,000	
For insurance	806,984	2,116,984
Capital Stock:		
Common Stock—authorized 4,000,000 shares without nominal or par value, whereof issued and outstanding—3,350,000 shares	50,250,000	
Earned Surplus	30,043,997	
(Of the earned surplus, $243,134 used for the purchase of company's own common stock, as per contra)		80,293,997
		$ 88,819,131

INTERNATIONAL SHOE COMPANY

STATEMENT OF PROFIT AND LOSS

For the year ended November 30, 1945

Net sales of shoes and other manufactured merchandise	$	148,783,704
Other income		236,593
Reduction in reserve provided for excess cost of replacing inventories maintained on the "last-in, first-out" basis		60,000
	$	149,080,297
Cost of shoes and merchandise sold, after charging operating expenses, maintenance of physical properties, selling, administrative, and warehouse expenses, and credit losses, less discount on purchases		137,254,175
Depreciation of physical properties		1,088,135
Other charges		6,777
Provision for Federal taxes on income, including excess profits taxes of $2,268,509, less estimated refunds of $543,677 resulting from excess cost of replacing inventories maintained on "last-in, first-out" basis		5,162,490
		143,511,577
NET PROFIT FOR YEAR	$	5,568,720

STATEMENT OF CAPITAL STOCK AND SURPLUS

Common stock and surplus at November 30, 1944:				
Common stock (outstanding 3,350,000 shares)			$	50,250,000
Earned surplus				30,488,357
				80,738,357
Net Profit for the year				5,568,720
				86,307,077
Dividends:				
Common stock—$1.80 per share	$	6,030,000		
Less—Dividends on company's own common stock		16,920		6,013,080
Common stock and surplus at November 30, 1945				80,293,997
Divided as follows:				
Common stock (outstanding 3,350,000 shares)		50,250,000		
Earned surplus		30,043,997	$	80,293,997

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

St. Louis, Missouri, December 31, 1945

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Balance Sheet of the International Shoe Company, a Delaware Corporation, as of November 30, 1945 and the statements of Profit and Loss and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. It was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures.

The Company has made shipments under contracts with the United States Government, which contracts are subject to renegotiation under the provisions of Section 403 of the Sixth Supplemental National Defense Appropriation Act as amended. Renegotiation proceedings for the previous year have been concluded and it was determined that no excessive profits were realized from such contracts during the year. However, the Company made during the year a voluntary price reduction, in a nominal amount, with respect to military gloves shipped during the previous year. Renegotiation proceedings have not been begun for the current year; however, the reserve for contingencies is considered ample in the event refund should be claimed by the Government.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the International Shoe Company at November 30, 1945 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

OFFICERS

Frank C. Rand	Chairman of the Board
James T. Pettus . . .	Vice-Chairman of the Board
Byron A. Gray	President
Andrew W. Johnson . .	Vice-President and Treasurer
Paul B. Jamison . . .	Vice-President
Oliver F. Peters . . .	Vice-President
H. Edgar Jenkins . . .	Vice-President
Arthur B. Fletcher . .	Vice-President
Dickson S. Stauffer . .	Vice-President
Robert O. Monnig . . .	Comptroller and Asst. Sec'y
Carl E. Brueckmann . .	Secretary
William N. Sitton . . .	Assistant Treasurer

DIRECTORS

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Samuel Bown
Carl E. Brueckmann
Clarence H. Fielder
Arthur B. Fletcher
Byron A. Gray
H. Roy Green
Clemence L. Hein
Edward J. Hopkins
Fred Hume
Lewis B. Jackson
Paul B. Jamison
H. Edgar Jenkins
Andrew W. Johnson
J. Lee Johnson
Robert L. Jordan
Robert O. Monnig
William H. Moulton
Oliver F. Peters
James T. Pettus
Edgar E. Rand
Frank C. Rand
Henry H. Rand
William N. Sitton
Dickson S. Stauffer

TRANSFER AGENTS

Manufacturers Trust Co., New York, N. Y.
Mississippi Valley Trust Co., St. Louis, Mo.

REGISTRARS

Guaranty Trust Co., New York, N. Y.
St. Louis Union Trust Co., St. Louis, Mo.

SALES BRANCHES

St. Louis

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.

St. Louis

Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

Manchester, N. H.

Sundial Shoe Co.
Great Northern Shoe Co.
Interstate Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

Missouri

Bland
Cape Girardeau
De Soto
Dexter
Eldorado Springs
Fulton
Hannibal
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Charles
St. Clair
St. Louis
Sikeston
Sullivan
Sweet Springs
Washington
Windsor

Illinois

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

New Hampshire

Claremont
Manchester
Nashua
Newport

Kentucky

Paducah

Arkansas

Malvern

TANNERIES

Illinois

South Wood River

Missouri

St. Louis

New Hampshire

Manchester
Merrimack

North Carolina

Morganton
North Wilkesboro
(Extract Plant)

Pennsylvania

Philadelphia

West Virginia

Marlinton